

Message Text

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ACTION IO-13

INFO OCT-01 EUR-12 ISO-00 TRSE-00 CAB-05 CIAE-00 COME-00

DODE-00 DOTE-00 EB-07 INR-07 NSAE-00 CIEP-02 FAA-00

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FM AMCONSUL MONTREAL

TO SECSTATE WASHDC 8337

UNCLAS MONTREAL 1852

E. O. 11652: N/A

TAGS: PORG, EAIR, ICAO

SUBJ: ICAO: AGREEMENT WITH ICAO FOR REIMBURSEMENT OF US INCOME
TAXES

1. FOLLOWING IS TEXT OF ICAO LETTER DELIVERED TO US
MISSION DEC 1 (LETTER SIGNED BY CHIEF/FINANCE BRANCH): QUOTE.
I HAVE THE HONOUR TO INFORM YOU ON BEHALF OF THE SECRETARY GENERAL
THAT THE INTERNATIONAL CIVIL AVIATION ORGANIZATION (ICAO), WOULD
LIKE THE GOVERNMENT OF THE UNITED STATES TO CONSIDER THE
POSSIBILITY OF ENTERING INTO AN AGREEMENT WITH ICAO FOR THE
REIMBURSEMENT OF UNITED STATES INCOME TAXES PAID BY ICAO
EMPLOYEES, ON THEIR ICAO EARNINGS.

AS YOU ARE AWARE, THE REIMBURSEMENT TO STAFF MEMBERS OF INCOME
TAXES PAID ON EARNINGS DERIVED FROM EMPLOYMENT WITH THE
ORGANIZATION IS DESIGNED TO PROVIDE EQUALITY OF REMUNERATION
BETWEEN EMPLOYEES SUBJECT TO UNITED STATES INCOME TAXES, AND
OTHER STAFF MEMBERS WHOSE SALARIES ARE EXEMPT FROM NATIONAL
TAXATION.

CONSIDERATION COULD BE GIVEN TO INTRODUCING A TAX
EQUALIZATION PLAN IN ICAO, BUT IN VIEW OF THE FACT THAT THE
NUMBER AND VALUE OF SUCH TAX REIMBURSEMENTS WOULD BE SMALL COMPARED
TO THOSE OF SOME OF THE OTHER COMMON SYSTEM ORGANIZATIONS, IT
IS FELT THAT IT WOULD BE PREFERABLE TO AVOID THE NEED TO
INTRODUCE SUCH AN ELABORATE PROCEDURE.

I AM AWARE THAT THE UNITED NATIONS EDUCATIONAL, SCIENTIFIC,
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AND CULTURAL ORGANIZATION, THE INTERNATIONAL LABOR ORGANIZATION,

AND THE INTERNATIONAL ATOMIC ENERGY AGENCY HAVE CONCLUDED AGREEMENTS WITH THE GOVERNMENT OF THE UNITED STATES WHEREBY THE GOVERNMENT REFUNDS TO THOSE ORGANIZATIONS THE AMOUNT OF UNITED STATES INCOME TAXES REIMBURSED BY THOSE ORGANIZATIONS TO STAFF MEMBERS. SUCH AGREEMENTS PRODUCE THE SAME RESULT AS A TAX EQUALIZATION PLAN AND HAVE THE ADVANTAGE OF BEING ADMINISTRATIVELY INEXPENSIVE AND SIMPLE.

THE SECRETARY GENERAL OF THE ICAO HAS THEREFORE INSTRUCTED ME TO ASK YOU TO BE GOOD ENOUGH TO RAISE WITH YOUR GOVERNMENT THE POSSIBILITY OF AN AGREEMENT BETWEEN THE ICAO AND THE GOVERNMENT OF THE UNITED STATES, UNDER WHICH REIMBURSEMENTS OF UNITED STATES INCOME TAXES ON THEIR ICAO EARNINGS PAID TO STAFF MEMBERS BY ICAO WOULD BE REFUNDED DIRECTLY TO THE ICAO BY THE GOVERNMENT. THE ANNUAL COST OF SUCH TAX REIMBURSEMENT IS ESTIMATED TO BE \$70,000, AT PRESENT. THIS ESTIMATE IS FOR THE YEAR 1976, AND TAKES INTO ACCOUNT THE CHANGES IN THE U.S. INTERNAL REVENUE CODE WITH RESPECT TO SIGNIFICANT REDUCTIONS IN THE PARTIAL EXEMPTION OF INCOME EARNED OUTSIDE THE UNITED STATES. BECAUSE OF THESE REDUCTIONS IN THE FORMER EXEMPTION OF INCOME EARNED OUTSIDE THE UNITED STATES, IT IS PARTICULARLY APPROPRIATE THAT THE REIMBURSEMENT ARRANGEMENT SUGGESTED HEREIN BE EFFECTIVE WITH THE TAX YEAR 1976. BECAUSE OF THE MANY VARIABLES, IT IS DIFFICULT TO ESTIMATE REIMBURSEMENT LEVELS FOR SUBSEQUENT YEARS, BUT IT WOULD BE PRUDENT TO ANTICIPATE AN INCREASE IN THE ORDER OF TEN PER CENT PER YEAR. IF YOUR GOVERNMENT ACCEPTS THIS PROPOSAL, I WOULD SUGGEST THAT THE ICAO PAY TAX REIMBURSEMENTS TO REGULAR BUDGET-FUNDED ICAO STAFF MEMBERS WHO ARE U.S. CITIZENS, OR OTHERWISE LIABLE TO PAY U.S. INCOME TAXES, FOR ANY U.S. INCOME TAXES LEVIED ON THEIR ICAO INCOME, THROUGH A SPECIAL SUSPENSE ACCOUNT. THE U.S. GOVERNMENT WOULD THEN BE OBLIGATED TO PAY A TAX EQUALIZATION CHARGE AS PART OF ITS ANNUAL PAYMENT TO THE ICAO TO COMPENSATE THIS SPECIAL SUSPENSE ACCOUNT. THIS CHARGE WOULD COVER ACTUAL REIMBURSEMENTS MADE BY THE ICAO TO EMPLOYEES SUBJECT TO U.S. INCOME TAX, WHOSE SALARIES ARE CHARGEABLE TO THE ICAO REGULAR BUDGET.

IN THE INTEREST OF EQUITY TO ICAO STAFF MEMBERS OF UNITED STATES CITIZENSHIP OR OTHERWISE LIABLE TO PAY U.S. INCOME TAXES, IT IS SINCERELY HOPED THAT THE UNITED STATES GOVERNMENT WILL AGREE WITH THIS SUGGESTION. UNQUOTE.

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Margaret P. Grafeld
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